



Research in Brief

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Local government revenue mobilisation in Anglophone Africa

Many local governments in Africa have inadequate resources to deliver the services for which they are responsible. This paper examines opportunities and constraints to improving local revenue mobilisation by urban councils in anglophone Africa, including political and administrative constraints and factors affecting citizens' compliance. It makes a number of recommendations for future policy and research.

Local government tax systems

Most local government authorities in anglophone Africa will continue to depend on fiscal transfers from central government, so making these more predictable and transparent, and improving coordination between central and local government are important aspects of improving local revenue mobilisation. But local governments' own taxation arrangements also deserve more attention: they affect large numbers of people, and can often be arbitrary, coercive, corrupt and non-transparent. They are costly to administer, difficult to enforce, carry high compliance costs and create economic distortions that can undermine important development goals including commercialisation of smallholder agriculture and formalisation of small and micro enterprises. They are often regressive. Without tackling problems of basic design and methods of collection, any top-down drive to increase local revenue mobilisation thus risks being counter-productive.

Local government "own revenue" instruments

The main sources of own revenue for urban municipalities are usually property taxes, business licenses, market fees and various user charges. They have the potential to provide substantial and reliable revenue if well administered, but in practice all have serious drawbacks. For property tax the main constraints include weak capacity to implement accurate valuation practices; poor collection; lack of clear ownership titles; and lack of political support for enforcement. Business licenses create high compliance costs due to complex procedures; may not reflect ability to pay; provide opportunities for rent seeking; and are often poorly administered, so generate little revenue. User fees may encourage efficient use of public sector resources but also suffer from defects including inequitable burdens on low income users, ineffective collection and billing arrangements, poor quality services and persistent resistance to payment. However experience also points to opportunities for ➤

“Improved coordination between central and local government is an important aspect of improving local revenue mobilisation.”

reform, including simplifying methods of property valuation and upgrading skills; making business license systems simpler, more transparent and effective (for example the single business permit system in Kenya); and improving compliance in paying user fees – for example through shared private water taps in informal settlements. Key issues affecting voluntary compliance and social cooperation include citizens' trust in others, and the perceived trustworthiness of government.

Tax collection practices

Local governments have experimented with a variety of options to improve tax collection including outsourcing collection to central government, private agents and semi-private partners such as market cooperatives. For example in Tanzania collection of property taxes, market fees and other levies has been outsourced to a range of different agents. The evidence is inconclusive as to whether outsourcing has led to better revenue administration; however it can establish a platform from which future change can be facilitated. Success depends on the quality of local government management, the extent of political support for reform, and the transparency of the process. Assessing revenue potential can be a problem: if this is underestimated it can result in an agent capturing a disproportionate amount of revenue collected.

Implications for policy and research

Local government taxation deserves more attention from policymakers: it brings many people into direct contact with public authorities and so plays an important role in shaping state-society relations. Moreover experience suggests that there is scope for enhancing revenue especially of urban councils by improving the cost effectiveness of collection and reducing losses through evasion and corruption. This requires a multifaceted approach and strong political

support from central government, in order to improve administration capacity, encourage compliance, and reduce the scope for corruption and political interference. Key measures include:

- improving the availability of good quality information, to enhance opportunities for citizens to demand accountability;
- simplifying processes and fees structures, for example for business licenses;
- adopting a more pragmatic approach to property tax, taking account of the limited capacity of urban councils to undertake valuation and enforcement;
- harmonising central and local government taxation to reduce double taxation and inconsistent policies.

Policymakers need a fine-grained understanding both of technical issues and political and economic dynamics influencing specific subnational contexts and revenue sources. Future research should focus on the detailed impact of local tax reform on taxpayers; the links between taxation and improved service delivery and accountability; political economy factors associated with different revenue sources and their implications for compliance; and collecting evidence about which methods of tax collection work best in different circumstances.

Further reading

Odd-Helge Fjeldstad, O-H. & Heggstad, K. (2012) *Local Government Revenue Mobilisation in Anglophone Africa* ICTD Working Paper 7, Brighton: IDS, October

Credits

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